

**COUNTY ROAD COMMISSION
OF LENAWEЕ COUNTY**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

**WITH
INDEPENDENT AUDITORS' REPORT**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name LENAAWEE COUNTY ROAD COMMISSION	County LENAAWEE
Fiscal Year End DECEMBER 31, 2007	Opinion Date MARCH 20, 2008	Date Audit Report Submitted to State MAY 2, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

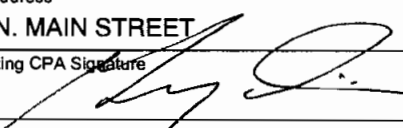
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NOT NEEDED THIS YEAR (see Pg 4.1 in F/S for Significant Deficiencies)	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ROBERTSON, EATON AND OWEN P.C.		Telephone Number (517) 265-6154	
Street Address 121 N. MAIN STREET		City ADRIAN	State MI
Zip 49221			
Authorizing CPA Signature 		Printed Name GARY OWEN	License Number 1101008646

LENAWEE COUNTY
COUNTY ROAD COMMISSION
INDEPENDENT AUDITORS' REPORT
TABLE OF CONTENTS

	PAGE NUMBER
Independent Auditors' Report	1 – 2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3 – 4.1
Management's Discussion and Analysis	5 – 10
Basic Financial Statements:	
<i>Government-Wide Financial Statements</i>	
Statements of Net Assets	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Balance Sheets – Governmental Fund	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Operating Fund	16
Notes to Financial Statements	17 – 30
SUPPLEMENTARY INFORMATION	
Schedules of Administrative Expenses – General Operating Fund	31
Schedule of Accounts Receivable – General Operating Fund	32

To the Board of County Road Commissioners
Lenawee County
Adrian, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Lenawee County Road Commission, as of and for the year ended December 31, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Lenawee County Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lenawee County Road Commission, as of December 31, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2008 on our consideration of Lenawee County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of County Road Commissioners
Lenawee County Road Commission
Adrian, Michigan

The management's discussion and analysis, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Lenawee County Road Commission. Such information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
March 20, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners
Lenawee County
Adrian, Michigan

We have audited the accompanying financial statements of the Lenawee County Road Commission, as of and for the year ended December 31, 2007, and have issued our report thereon dated March 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Lenawee County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lenawee County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commissioner's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commissioner's financial statements that is more than inconsequential will not be prevented or detected by the Commissioner's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lenawee County Road Commission's internal control.

Page 2

To the Board of County Road Commissioners
Lenawee County
Adrian, Michigan

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify one significant deficiency in internal control over financial reporting but we do not consider it a material weakness as defined above.

See Page 4.1 for detail on significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Lenawee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of state laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
March 20, 2008

Finding considered a significant deficiency

Criteria:

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the Lenawee County Road Commission's staff prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The staff of the Commission does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Robertson, Eaton & Owen P.C.
Adrian, Michigan
March 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

Our discussion and analysis of the Lenawee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the individual fund, reporting the operations in more detail than the government-wide financial statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, you need to consider additional nonfinancial factors such as changes in the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental fund type. Our analysis of the Road Commission's major fund (General Operating Fund) begins on page 11. The fund financial statements begin on page 13 and provide detailed information about the General Operating Fund.

Governmental Fund – This fund focuses on the inflows and outflows of money and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 2.3% from \$189,891,047 to \$194,411,726 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation to authorize the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, assets (except for assets invested in capital assets, net of related debt) are considered restricted.

Unrestricted net assets are those assets earned by the Road Commission itself outside State and Federal funding (i.e., permits, inspections, salvage sales, and interest income).

The net assets increased by \$4,520,679 during 2007. This increase is mainly due to the revaluation of infrastructure assets under the modified approach. The increase was \$4,581,066.

Net Assets (Continued)

The investment in capital assets increased by \$4,100,793.

Net assets for the years ended December 31, 2007 and 2006 follow:

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 12,096,213	\$ 11,862,435
Capital assets	<u>184,002,961</u>	<u>179,902,168</u>
Total assets	<u>196,099,174</u>	<u>191,764,603</u>
Long-term liabilities	108,030	97,825
Other liabilities	<u>1,579,418</u>	<u>1,775,731</u>
Total liabilities	<u>1,687,448</u>	<u>1,873,556</u>
Net assets:		
Invested in capital assets	184,002,961	179,902,168
Restricted	7,723,729	7,423,951
Unrestricted	<u>2,685,036</u>	<u>2,564,928</u>
Total net assets	<u>\$ 194,411,726</u>	<u>\$ 189,891,047</u>

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
<u>Governmental Activities</u>		
Program Revenue		
Federal grants	\$ 1,814,167	\$ 817,488
State grants	1,973,559	1,196,926
Contributions from local units	2,976,959	2,903,117
Charges for services	6,122	1,705
Asphalt plant revenue	1,200,996	1,136,681
General Revenue		
Motor Vehicle Highway Funds	7,172,229	7,228,422
Interest income	299,084	191,166
Miscellaneous	375,633	92,599
Gain on equipment sales	<u>54,250</u>	<u>1,750</u>
Total revenue	<u>15,872,999</u>	<u>13,569,854</u>
Expenses:		
Road work	14,510,755	11,448,917
Asphalt plant operations	<u>1,422,631</u>	<u>1,530,963</u>
Total expenses	<u>15,933,386</u>	<u>12,979,880</u>
Change in infrastructure asset value		
Using modified approach	<u>4,581,066</u>	<u>45,632,266</u>
Increase in net assets	<u>\$ 4,520,679</u>	<u>\$ 46,222,240</u>

The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended December 31, 2007, the fund balance of the General Operating Fund increased \$430,091 as compared to a increase of \$351,608 in the fund balance for the year ended December 31, 2006. Total revenues were \$15,872,999, an increase of \$2,303,145 as compared to last year. There was a decrease in gasoline tax revenue in the amount of (\$56,193). Total expenditures were \$15,442,908, a increase of \$2,224,662 as compared to last year. There was an increase of \$163,434 in preservation-structural improvement expenditures for 2007. There was an increase of \$3,034,707 in maintenance and traffic control projects completed during 2007.

A summary of changes in the Operating Fund is as follows:

	2007 Operating Fund	2006 Operating Fund	Favorable (Unfavorable) Variance	Change Percent (%)
Revenues:				
Motor Vehicle Highway Funds	\$ 7,172,229	\$ 7,228,422	\$ (56,193)	(0.7)
Federal/State aid	3,787,726	2,014,413	1,773,313	88.0
Township contributions	2,477,758	2,671,092	(193,334)	(7.2)
Contributions – other	499,201	232,025	267,176	115.1
Interest income	299,084	191,166	107,918	56.4
Miscellaneous	381,755	94,305	287,450	304.8
Asphalt revenue	1,200,996	1,136,681	64,315	5.6
Gain on equipment sales	<u>54,250</u>	<u>1,750</u>	<u>52,500</u>	3100.0
Total revenues	<u>15,872,999</u>	<u>13,569,854</u>	<u>2,303,145</u>	16.9
Expenditures:				
Road work	14,500,550	11,454,898	(3,045,652)	(26.5)
Asphalt plant operation	1,422,631	1,530,963	108,332	7.0
Net capital outlay	<u>(480,273)</u>	<u>232,385</u>	<u>712,658</u>	306.6
Total expenditures	<u>15,442,908</u>	<u>13,218,246</u>	<u>(2,224,662)</u>	(16.8)
Net change in fund balance	430,091	351,608	78,483	22.3
Fund balance – beginning of year	<u>10,086,704</u>	<u>9,735,096</u>		
Fund balance – end of year	<u>\$ 10,516,795</u>	<u>\$ 10,086,704</u>		

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended budget for 2007 was increased due to expected increased revenues largely from township projects and asphalt revenues. Higher interest rates than expected also contributed to the increase in the budget. A refund from the liability insurance carrier influenced the decision to increase expected Other Contributions.

The actual revenue recognized in 2007 was approximately 10% less than the final amended budget amount. This was primarily the result of receiving significantly less Federal and State aid funds than expected.

The final amended expenditure budget for 2007 was increased to reflect anticipated expenditures. This was necessary, in large part, due to continuing increases in fuel costs. In addition, the expected increases in township projects and asphalt revenues would result in higher expenditures as well. Expected capital outlay was also reduced.

The actual expenditures in 2007 were less than the final budget. This was primarily the result of not receiving expected Federal and State aid funds, thereby reducing available funding for various bridge projects.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2007, the Road Commission had invested \$335,407 in capital assets. This does not include the increase in infrastructure assets under the modified approach.

	<u>2007</u>	<u>2006</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land	\$ 857,011	\$ 856,274	0.09
Capital Assets Being Depreciated			
Buildings	6,667,083	6,667,083	--
Equipment	14,860,786	14,526,116	2.3
Depletable assets	<u>317,484</u>	<u>317,484</u>	--
Subtotal	21,845,353	21,510,683	1.5
Capital Assets Using Modified Approach			
Roads, bridges, and culverts	<u>176,194,480</u>	<u>171,613,414</u>	2.6
Subtotal	<u>198,039,833</u>	<u>193,124,097</u>	2.5
Total capital assets	198,896,844	193,980,371	2.5
Total accumulated depreciation	<u>(14,893,883)</u>	<u>(14,078,203)</u>	(5.7)
Total net capital assets	<u>\$ 184,002,961</u>	<u>\$ 179,902,168</u>	2.2

Capital Assets (Continued)

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$176,194,480 using the modified approach for evaluation.

This year's major capital assets additions not including infrastructure evaluation are as follows:

Land	\$ 737
Equipment/Building	<u>334,670</u>
Total additions	<u>\$ 335,407</u>

Economic Factors and Next Year's Budget

The Board of Lenawee County Road Commissioners considered many factors when setting the budget for fiscal year 2008. The overall economy is one factor.

Fuel prices are again at record highs. This tends to influence motorists' driving habits and a reduction in gas tax revenues. Consequently, for 2008, the Road Commission had budgeted a decrease in this revenue category from the 2007 budget. In addition, higher gas and fuel prices affect the costs of operations for the Road Commission, from the cost to keep a truck on the road, to the delivery fees paid for road materials, maintenance parts, etc. Increased petroleum costs also result in higher costs for Asphalt Cement, a key component in the manufacture of Asphalt. Although the Lenawee County Road Commission will participate in Federal and State Aid projects in 2008, those revenues are expected to be significantly lower than 2007 due to limited availability of general funds. Township contributions are expected to be lower in 2008 due to lower availability of funds.

These factors have resulted in a conservative budget for 2008.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Lenawee County Road Commission's administrative offices at 2461 Treat Highway, Adrian, Michigan 49221.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
STATEMENTS OF NET ASSETS
December 31, 2007 and 2006

	<u>Governmental Activity</u>	
	<u>General Operating</u>	
	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
County Treasurer's cash accounts	\$	\$ 3,335
Imprest cash	250	250
Accounts receivable		
Road Agreements – Townships	482,863	293,133
Cities, Villages, and Developers	26,209	52,659
Due from State – MVHF payments	1,113,844	1,115,799
Inventories		
Equipment, materials, and parts	480,781	473,074
Road materials	3,235,773	3,598,671
Investments		
Board designated	1,079,187	500,000
Performance bond deposits	155,760	160,314
Other	5,278,975	5,418,610
Prepaid expense	242,571	246,590
Capital assets – net	<u>184,002,961</u>	<u>179,902,168</u>
 Total assets	 <u>\$ 196,099,174</u>	 <u>\$ 191,764,603</u>
 <u>LIABILITIES</u>		
Liabilities:		
Accounts payable	\$ 238,686	\$ 175,587
Accrued payroll and payroll taxes	129,291	123,499
Advances – Townships	122,578	116,110
Performance bond deposits	155,760	160,314
Accumulated sick and vacation pay – current	82,550	74,814
Deferred revenue	850,553	1,125,407
Accumulated sick and vacation pay – noncurrent	<u>108,030</u>	<u>97,825</u>
 Total liabilities	 <u>\$ 1,687,448</u>	 <u>\$ 1,873,556</u>
 Net assets:		
Investment in capital assets	\$ 184,002,961	\$ 179,902,168
Restricted	7,723,729	7,423,951
Unrestricted	<u>2,685,036</u>	<u>2,564,928</u>
 Total net assets	 <u>\$ 194,411,726</u>	 <u>\$ 189,891,047</u>

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	PROGRAM REVENUES			Net (Expenses) Revenue And Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activity Totals
Primary Roads					
Preservation-Structural Improvements - LCRC	\$ 1,322,818	\$	\$	\$ 755,853	\$ (566,965)
Preservation-Structural Improvements - OSC	290,477			250,873	(39,604)
Maintenance and traffic control	3,680,066				(3,680,066)
Local Roads					
Preservation-Structural Improvements - LCRC	1,526,353			2,477,758	951,405
Preservation-Structural Improvements - OSC	2,967,731			2,781,000	(186,731)
Maintenance and traffic control	4,080,872			499,201	(3,581,671)
Administrative Expenses					
Administrative expense - net	(225,570)			225,570	239,321
Equipment Operating Expenses					
Equipment operating expenses - net	862,341			(862,341)	(958,492)
Asphalt plant operations	1,422,631	1,200,996		(221,635)	(394,282)
Salt brine well/Driveway permits	5,667			(5,667)	(69,775)
Total	<u>15,933,386</u>	<u>1,200,996</u>	<u>-</u>	<u>6,764,685</u>	<u>(6,925,669)</u>
General Revenues:					
Motor Vehicle Highway Funds					
Interest income				7,172,229	7,228,422
Miscellaneous				299,084	191,166
Gain on equipment sales				381,755	94,305
				54,250	1,750
Total general revenues				<u>7,907,318</u>	<u>7,515,643</u>
Change in infrastructure asset value using modified approach				<u>4,581,066</u>	<u>45,632,266</u>
Change in net assets				<u>4,520,679</u>	<u>46,222,240</u>
Net assets - beginning of year				<u>189,891,047</u>	<u>143,668,807</u>
Net assets - end of year				<u>\$ 194,411,726</u>	<u>\$ 189,891,047</u>

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
BALANCE SHEETS
GOVERNMENTAL FUND
December 31, 2007 and 2006

<u>ASSETS</u>	<u>General Operating</u>	
	<u>2007</u>	<u>2006</u>
County Treasurer's cash accounts	\$	\$ 3,335
Imprest cash	250	250
Accounts receivable		
Road Agreements – Townships	482,863	293,133
Cities, Villages, and Individuals	26,209	52,659
Due from State – MVHF payments	1,113,844	1,115,799
Inventories		
Equipment, materials, and parts	480,781	473,074
Road materials	3,235,773	3,598,671
Investments		
Board designated	1,079,187	500,000
Performance bond deposits	155,760	160,314
Other	5,278,975	5,418,610
Prepaid expense	<u>242,571</u>	<u>246,590</u>
Total assets	<u>\$ 12,096,213</u>	<u>\$ 11,862,435</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 238,686	\$ 175,587
Accrued payroll and payroll taxes	129,291	123,499
Advances – Townships	122,578	116,110
Performance bond deposits	155,760	160,314
Accumulated sick and vacation pay	82,550	74,814
Deferred revenue	<u>850,553</u>	<u>1,125,407</u>
Total liabilities	<u>1,579,418</u>	<u>1,775,731</u>
Fund balance:		
Motor Vehicle Highway Funds		
Primary Road	6,481,279	6,923,885
Local Road	1,242,450	500,066
County Road Commission Funds		
Undesignated	1,713,879	2,162,753
Designated by Board (Note 3)	<u>1,079,187</u>	<u>500,000</u>
Total fund balance	<u>10,516,795</u>	<u>10,086,704</u>
Total liabilities and fund balance	<u>\$ 12,096,213</u>	<u>\$ 11,862,435</u>
Amounts reported for Governmental Activity in the Statement of Net Assets (Page 11) are different because:		
Fund balance – General Operating Fund	\$ 10,516,795	\$ 10,086,704
Capital assets used in governmental activity are not financial resources and, therefore, are not reported in the fund.	184,002,961	179,902,168
Long-term liability – accrued sick and vacation – is not due and payable in the current period and, therefore, is not reported in the fund.	<u>(108,030)</u>	<u>(97,825)</u>
Net assets	<u>\$ 194,411,726</u>	<u>\$ 189,891,047</u>

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	<u>General Operating Fund</u>			<u>Total</u>	
	<u>Primary Road Funds</u>	<u>Local Road Funds</u>	<u>County Road Funds</u>	<u>2007</u>	<u>2006</u>
Revenues:					
Motor Vehicle Highway Funds:					
Engineering	\$ 7,500	\$ 2,500	\$	\$ 10,000	\$ 10,000
Allocation	4,375,293	2,332,998		6,708,291	6,761,637
Urban road	349,405	104,533		453,938	456,785
State critical bridge	21,217	293,184		314,401	560,336
State aid – road		903,305		903,305	636,589
Pilot project	755,853			755,853	9,303
Federal aid – roads	114,654	59,883		174,537	432,373
Federal aid – bridges	115,002	1,524,628		1,639,630	375,812
Township contributions		2,477,758		2,477,758	2,671,092
Other contributions		499,201		499,201	232,025
Miscellaneous revenue:					
Interest income	205,351	14,805	78,928	299,084	191,166
Permits, maps, reimbursements	133,103	182,980	51,318	367,401	80,426
Asphalt revenue	771,399	429,597		1,200,996	1,136,681
Salvage sales			8,232	8,232	12,174
Gain on equipment sales	24,472	23,266	6,512	54,250	1,750
Services – other			6,122	6,122	1,705
Total revenues	<u>6,873,249</u>	<u>8,848,638</u>	<u>151,112</u>	<u>15,872,999</u>	<u>13,569,854</u>
Expenditures:					
Preservation – structural improvements	1,612,030	4,492,625		6,104,655	5,941,221
Maintenance and traffic control	3,676,519	4,076,938		7,753,457	4,718,750
Administrative expense – net	(86,082)	(139,488)		(225,570)	(233,340)
Equipment expense – net	316,652	466,182	79,507	862,341	958,492
Capital outlay – net	(217,020)	(198,878)	(64,375)	(480,273)	232,385
Asphalt plant operation	913,756	508,875		1,422,631	1,530,963
Salt brine well/Driveway permits			5,667	5,667	69,775
Total expenditures	<u>6,215,855</u>	<u>9,206,254</u>	<u>20,799</u>	<u>15,442,908</u>	<u>13,218,246</u>
Excess (deficiency) of revenues over (under) expenditures	657,394	(357,616)	130,313	430,091	
Other financing sources (uses):					
Transfers in/(out)	<u>(1,100,000)</u>	<u>1,100,000</u>			
Net change in fund balance	(442,606)	742,384	130,313	430,091	351,608
Fund balance - beginning of year	<u>6,923,885</u>	<u>500,066</u>	<u>2,662,753</u>	<u>10,086,704</u>	<u>9,735,096</u>
Fund balance - end of year	<u>\$ 6,481,279</u>	<u>\$ 1,242,450</u>	<u>\$ 2,793,066</u>	<u>\$ 10,516,795</u>	<u>\$ 10,086,704</u>

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2007

Amounts reported for governmental activity in the Statement of Activities
(Page 12) are different because:

Net change in fund balance (Page 14)	\$ 430,091
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The Governmental Fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. Or, in the case of roads, bridges, and culvert, reported on the modified approach. The amount presented represents the excess of capital outlay – net expense over depreciation expense for the year.	4,100,793
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The net change in long-term accrued sick and vacation reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the Governmental Fund. Net change is a increase in liability and results in additional expenses.	<u>(10,205)</u>
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Change in net assets (Page 12)	<u>\$ 4,520,679</u>
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LENAWEE COUNTY

COUNTY ROAD COMMISSION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

GENERAL OPERATING FUND

For the Year Ended December 31, 2007

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Revenues:				
Motor Vehicle Highway Funds	\$ 7,307,000	\$ 7,307,000	\$ 7,172,229	\$ (134,771)
Federal/State aid	4,224,650	4,994,650	3,787,726	(1,206,924)
Township contributions	2,288,875	2,438,875	2,477,758	38,883
Cities, villages, and other contributions	517,900	797,900	499,201	(298,699)
Interest income	193,950	298,950	299,084	134
Miscellaneous	75,000	75,000	381,755	306,755
Asphalt revenue	1,000,000	1,125,000	1,200,996	75,996
Gain on equipment sales	44,000	54,250	54,250	
Total revenues	<u>15,651,375</u>	<u>17,091,625</u>	<u>15,872,999</u>	<u>(1,218,626)</u>
Expenditures:				
Primary Roads				
Preservation – structural improvements – LCRC	2,945,000	1,531,150	1,321,553	209,597
Preservation – structural improvements – OSC	2,192,000	810,000	290,477	519,523
Maintenance and traffic control	2,187,000	4,487,000	3,676,519	810,481
Local Roads				
Preservation – structural improvements – LCRC	2,083,750	1,408,750	1,524,894	(116,144)
Preservation – structural improvements – OSC	2,107,000	3,389,000	2,967,731	421,269
Maintenance and traffic control	2,766,000	4,341,000	4,076,938	264,062
Administrative Expenses:				
Administrative expense	2,100,000	2,230,000	1,774,803	455,197
Less: Overhead credits and purchase discount	(1,660,275)	(1,865,275)	(2,000,373)	135,098
Equipment Expense:				
Equipment expense	3,300,000	3,300,000	3,221,026	78,974
Less: Equipment rental credit	(2,250,000)	(2,450,000)	(2,358,685)	(91,315)
Asphalt plant operation	900,000	1,230,000	1,422,631	(192,631)
Capital outlay	600,000	400,000	335,407	64,593
Less: Depreciation credits/equipment retirement	(995,000)	(995,000)	(815,680)	(179,320)
Salt brine well/	10,000	10,000	5,667	4,333
Contingency	100,000			
Total expenditures	<u>16,386,375</u>	<u>17,826,625</u>	<u>15,442,908</u>	<u>2,383,717</u>
Net change in fund balance	(735,000)	(735,000)	430,091	1,165,091
Fund balance – beginning of year			<u>10,086,704</u>	
Fund balance – end of year			<u>\$ 10,516,795</u>	

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The Lenawee County Road Commission is a component of the County of Lenawee.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective January 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared using full accrual accounting for all of the Road Commission's activities, including infrastructure (road, bridges, etc.).
- A change in the fund financial statements to focus on the major fund.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Road Commission has elected to implement the general provisions of the statement.

Basic Financial Statements – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the activities of the Road Commission. The Road Commission consists solely of a governmental-type activity; no business-type activity exists.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the governmental-wide financial statements.

The major individual governmental fund (General Operating Fund) is reported in the fund financial statement.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis.

The Road Commission reports the following major governmental fund:

The General Operating Fund is used to account for the proceeds of earmarked revenue or financial activities required under legal or regulatory provisions for road commissions in the State of Michigan.

Cash and Investments – Cash and cash investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value.

Inventory and Prepaid Expense – Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of the governmental fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, building, equipment, and infrastructure assets (e.g., road, bridges, and culvert) are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, except as noted below. Donated capital assets are recorded at estimated fair market value at the date of donation.

The modified approach, as defined in GASB 34, is used to value roads, bridges, and culvert in the County. The Road Commission has an asset management system with the required characteristics to use this approach.

Capital assets that are depreciated use the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave) – It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The current portion of this liability is reported in governmental funds.

Fund Equity – In the fund financial statements, the governmental fund reports restricted and unrestricted/designations of fund balance for amounts that represent restrictions by the State under Act 51 for Motor Vehicle Highway Funds; and designations by the County Road Commissioners.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH AND INVESTMENTS

At year end, the carrying value of the Road Commission's deposits was \$250 and bank balance was \$250. All investments of the Road Commission are currently in bank cash management accounts. The total carrying value, which approximates market, of investments was \$6,513,922. Of the bank balance and investments, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. All deposits are with banks located in Michigan as required by statutes. All investments are with Michigan banks and authorized by statutes.

The following investments are in Cash Management Accounts at United Bank & Trust. All investments are stated at cost which approximates market. The investments are:

<u>Bank</u>	<u>2007</u>	<u>2006</u>
Account 9003169	\$ 1,542,304	\$ 5,297,686
Account 9003355		501,396
Account 9003290	156,069	161,765
Account 9003223	<u>122,983</u>	<u>118,077</u>
	<u>\$ 1,821,356</u>	<u>\$ 6,078,924</u>

The following investments are with MBIA Asset Management Group in the Michigan CLASS investment pool:

	<u>2007</u>	<u>2006</u>
Account MI-01-0051-0011	\$ 502,073	\$
Account MI-01-0051-0012	<u>4,190,493</u>	<u></u>
	<u>\$ 4,692,566</u>	<u>\$</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 2. CASH AND INVESTMENTS (Continued)

The Road Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Road Commission limits its exposure to interest rate risk and credit rate risk by investing in conservative instruments like cash management accounts. There is exposure to custodial credit risk since all investments are with one institution and the investments are not fully covered by insurance.

MBIA's Michigan CLASS pool is a 2a7-like investment pool. Credit risk exposure is minimal since Michigan CLASS is rated AAA-V1 by Fitch.

NOTES 3. INVESTMENTS – BOARD AND DONOR DESIGNATED

The Board of Road Commissioners has through adopted resolutions designated a portion of invested funds for specified future uses. The designations are:

- A. **Equipment Fund** - investments to be used for future equipment purchases of the Lenawee County Road Commission.
- B. **Asphalt Plant Fund** - investments to be used for the maintenance of the asphalt plant and related equipment.
- C. **Post Employment Health Insurance Coverage** – investments designated to help fund future OPEB liability.

The investment balances of these designated funds at December 31, 2007 are as follows:

Equipment Fund	\$ -
Asphalt Plant Fund	500,000
Post Employment Benefits Funding set aside	<u>579,187</u>
	<u>\$ 1,079,187</u>

These designated funds are discussed below:

A. Equipment Fund

The Board of Road Commissioners has adopted a policy for the establishment and funding of an Equipment Fund. The fund is used to purchase all fixed assets for the Lenawee County Road Commission unless otherwise specified by the Board. Funding is determined by the fixed assets purchased, equating the year end balance to zero. Also, the proceeds on the sale of used equipment is additional funding of the Equipment Fund.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTES 3. INVESTMENTS – BOARD AND DONOR DESIGNATED (Continued)

Activity of the Equipment Fund for 2007 follows:

Balance	January 1, 2007	\$ -
Add:	Funding	281,157
Add:	Sales of equipment	54,250
Less:	Fixed asset purchases by this fund	<u>(335,407)</u>
Balance	December 31, 2007	<u>\$ -</u>

B. Asphalt Plant Fund

The Board of Commissioners established this fund for the maintenance of the asphalt plant and related equipment. Maximum funding is \$500,000.

Activity of the Asphalt Plant Fund:

Balance	January 1, 2007	<u>\$ 500,000</u>
Balance	December 31, 2007	<u>\$ 500,000</u>

C. Post Insurance Health Insurance Coverage

Lenawee County Road Commission Board has approved paying health insurance premiums for all qualifying current and future retirees of the Lenawee County Road Commission. The Commission is working on setting up an irrevocable trust to handle the funding for this obligation. The Board has designated \$579,187 in 2007 to be set aside to fund a portion of the liability.

It is currently projected that the present value of the past service liability for the health insurance coverage is approximately \$10,012,122.

In 2008, per GASB 45, this obligation will be formally recognized in the Road Commission's financial statements.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 856,274	\$ 737	\$ -	\$ 857,011
Capital assets being depreciated:				
Buildings	6,667,083			6,667,083
Equipment	14,526,116	334,670		14,860,786
Depletable assets	317,484			317,484
Subtotal	21,510,683	334,407	-	21,845,353
Capital assets using modified approach:				
Roads, bridges, and Culverts	171,613,414	4,581,066		176,194,480
Total capital assets	193,980,371	4,916,473	-	198,896,844
Less accumulated depreciation for:				
Buildings	(1,918,653)	(162,675)		(2,081,328)
Equipment	(11,997,415)	(653,005)		(12,650,420)
Depletable assets	(162,135)			(162,135)
Subtotal	(14,078,203)	(815,680)	-	(14,893,883)
Net capital assets	\$ 179,902,168	\$ 4,100,793	\$ -	\$ 184,002,961

Modified Approach

The Lenawee County Road Commission has chosen to use the modified approach in valuing its roads, bridges, and culvert.

The values are based on current values as of 2007 and condition assessments going back as far as 1996.

Roads

The Lenawee County Road Commission's (LCRC) Engineering Department incorporated actual Act 51 Certification Mileage, Roadsoft software for road condition evaluations, and known installed material costs to determine the current value of all certified county primary and county local roads. Roadsoft is a road condition evaluation software using a standard PASER Rating system, (Pavement, Surface, Evaluation, and Rating). The evaluation system is a 1 through 10 rating system where 10 is best and 1 is the worst. Roadsoft software is developed by Local Technical Assistance Programs (LTAP) via contract

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 4. CAPITAL ASSETS (Continued)

Roads (Continued)

with the Michigan Department of Transportation (MDOT). Roadsoft software is also the currently accepted software by the Transportation Asset Management Council (TAMC) to be used for Asset Management data collection. The known installed material costs were generated from recent new federal aid eligible road construction projects overseen via MDOT in Lenawee County. Additional road cost data was generated in cooperation and assistance from the LCRC's Operations Department. These two areas of data were compared and/or combined and adjusted for local installed construction costs. The total number of miles for Class "A" All Season, Non-Class "A" Asphalt, Gravel, and Sealcoat roads for both Primary and Local roads were evaluated as new and then depreciated by the PASER rating to determine its current value. The new road installed construction costs used are as follows:

	<u>Primary</u>	<u>Local</u>
• Class "A" All Season	\$340,000 / Mile	\$340,000 / Mile
• Non-Class "A" Asphalt	\$215,000 / Mile	\$216,000 / Mile
• Sealcoat	\$ 36,000 / Mile	\$ 36,000 / Mile
• Gravel	\$ 22,500 / Mile	\$ 22,500 / Mile

Bridges

All bridges were identified through the LCRC's Engineering Department using the current required MDOT Bridge Inventory System (MBIS). All Bridges are required to be inspected every two years using evaluation software distributed via MBIS. This evaluation system is a 1 through 10 rating system where 10 is best and 1 is the worst. A presumption was made that all of the bridges in the Lenawee County have value regardless of the type of construction or their state of condition. In addition, that some of the older bridges, regardless of type, could or would be placed on the MDOT Local Bridge List for replacement. Therefore, a total value for a structure could be determined using a combination of bridge deck cost per square foot, substructure cost and possible approach costs. The standard square foot of bridge deck cost established via the MDOT and used for this report is \$135.00 per square foot, and \$83,000 per abutment and per pier. For Timber Bridges, an average cost was determined using the cost of some of the most recently built bridges in Lenawee County. A square foot of bridge deck cost was then determined to be \$127.00 per square foot and \$57,000 per abutment and per pier. Eleven multiple span culverts have recently been added to the MBIS as bridges because they meet a minimum span length of twenty feet. Therefore, an average cost of \$0.88 per foot per inch was determined along with an average cost fill of \$79.00 per foot of culvert. All bridges and culverts were evaluated and a value was determined as new based on the square feet of bridge deck two abutments and the number of respective piers. The structures were then depreciated by its rating to determine a current value

Culverts

All culverts were identified through the Lenawee County Road Commission's Engineering Department using a culvert inventory that was established in 1998 and is constantly updated as new or existing information is generated the data is currently being utilized via Roadsoft. The standard culverts that are documented and evaluated regardless of type of culvert is 48 inches in diameter or larger. The evaluation system is the rating system within the Roadsoft software. The evaluation system is a 1

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 4. CAPITAL ASSETS (Continued)

through 10 rating system where 10 is best and 1 is the worst. The values of the culverts were determined by the use of MDOT's Weighted Average Item Prices – English, June 01, 2005 to June 19, 2006, Design Support Area, State Transportation Commission. All culverts were evaluated and a value was determined as new, based on the lineal feet of culvert and the weighted average item price. The structures were then depreciated by its' rating to determine a current value.

Conclusion

All of the Lenawee County Road Commission's Infrastructure Assets were evaluated using the most current data available via the use of Roadsoft, the Michigan Bridge Inventory System and the Lenawee County Road Commission's culvert inventory data base via Roadsoft. The current value of the Infrastructure Assets were determined via the use of known most recent MDOT installed material cost incorporated with the most recent local information. All assets were identified and a value determined as new then depreciated by its' respective rating to determine its current value. The following is a tabulation of those current values.

County Primary Roads

	<u>Miles</u>	<u>New Construction Value</u>	<u>New Current Value</u>
Class "A"	91.34	\$ 31,925,600	\$ 22,587,500
Asphalt	323.75	69,930,000	38,791,872
Gravel	40.53	911,925	547,155
Sealcoat	<u>21.84</u>	<u>786,240</u>	<u>333,864</u>
Totals	<u>477.46</u>	<u>\$ 103,553,765</u>	<u>\$ 62,260,391</u>

County Local Roads

	<u>Miles</u>	<u>New Construction Value</u>	<u>New Current Value</u>
Class "A"	3.14	\$ 1,099,097	\$ 1,024,297
Asphalt	366.95	79,692,750	44,853,160
Gravel	604.10	13,788,750	8,768,595
Sealcoat	<u>71.18</u>	<u>2,562,480</u>	<u>871,560</u>
Totals	<u>1,045.37</u>	<u>97,143,077</u>	<u>55,517,612</u>
Total County Roads	<u>1,522.83</u>	<u>\$ 200,696,842</u>	<u>\$ 117,778,003</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 4. CAPITAL ASSETS (Continued)

County Primary Bridges

	<u>Quantity</u>	<u>Current Value</u>
Concrete	37	\$ 14,606,345
Steel	9	3,341,740
Timber	19	4,337,858
Culverts (20 foot span min.)	<u>4</u>	<u>172,242</u>
Total	<u>69</u>	<u>\$ 22,458,185</u>

County Local Bridges

	<u>Quantity</u>	<u>Current Value</u>
Concrete	60	\$ 23,600,832
Steel	13	1,888,443
Timber	31	6,182,389
Culverts (20 foot span min.)	<u>7</u>	<u>168,182</u>
Total	<u>111</u>	<u>\$ 31,839,846</u>

County Bridges Totals

	<u>Quantity</u>	<u>Current Value</u>
Concrete	97	\$ 38,207,177
Steel	22	5,230,183
Timber	50	10,520,247
Culverts (20 foot span min.)	<u>11</u>	<u>340,424</u>
Total County Bridges	<u>180</u>	<u>\$ 54,298,031</u>

Culverts

<u>Primary</u>	<u>Local</u>	<u>Total</u>
<u>\$ 2,551,583</u>	<u>\$ 1,566,863</u>	<u>\$ 4,118,446</u>

Total County Roads, Bridges, and Culverts	<u>\$ 176,194,480</u>
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LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 4. CAPITAL ASSETS (Continued)

The history of annual maintenance costs required to maintain the roads, bridges, and culverts at their current value level are as follows:

<u>Year</u>	<u>Maintenance</u>	<u>Actual</u>		<u>Estimated/ Budgeted Total</u>
		<u>Preservation - Structural Improvements</u>	<u>Total</u>	
2007	\$ 7,753,457	\$ 6,104,655	\$ 13,858,112	\$ 15,966,900
2006	4,718,750	5,941,221	10,659,971	11,430,000
2007	6,106,689	5,911,781	12,018,470	12,337,500
2006	5,814,825	4,692,270	10,507,095	11,067,528
2003	4,614,739	8,124,876	12,739,615	13,883,635
2002	4,068,573	6,212,943	10,281,516	10,410,807

NOTE 5. PERFORMANCE BOND DEPOSITS

Performance bond deposits at December 31, 2007 are:

Acker Excavating	\$ 500
Adrian Charter Township	3,500
Anderzak Pitzen Construction	1,000
Bales Excavating	2,600
Barry Braber	300
Baseline Construction	1,500
Bechtel Corporation	1,500
Birth Toddlers & Beyond	6,000
C.E. Gleeson	500
Comcast	1,500
Consumers Energy	2,000
Continental Properties	1,500
CTE Sand & Gravel	500
D & H Properties	1,500
Dennis Burger	500
Detroit Edison	500
De Crocker's Inc.	300
Doug Myers	1,500
E.T. MacKenzie Co	300
Gleason Construction, Inc.	500
Great Lakes Geophysican, Inc.	1,200
Gregory Bishop	900
Halgus Sprinkler Systems	500
Kuntry, Kabins, Sheds & More	500
Mason Farms	500
Total carried forward	<u>\$ 31,600</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 5. PERFORMANCE BOND DEPOSITS (Continued)

Total carried forward	\$ 31,600
John Marvin	500
John Wagner	1,500
M & M Pavement Marking	6,930
Mark Hanna	500
Matt Shaffer	1,500
McMunn Farms, Inc.	500
Michael Fitch	8,600
Midwest Custom Builders	1,500
Midwest Energy	1,000
Midwest Grain Processors	7,500
New Felevo Dairy	14,000
Old Hickory Farms	300
Panhandle Eastern Pipeline	1,500
Paul Andre Farms	300
Phil Hart	300
Robert L. Johnson Construction	1,000
Royster Clark	1,500
Sand Creek Telephone	4,200
Sloan Excavating	500
Slusarski Excavating	1,000
Sylvester Material	16,660
Verizon	33,200
Village of Blissfield	500
Vreba-Hoff Dairy II, LLC	1,500
Waterland Trucking/Mann Hwy.	15,170
Wilson's Backhoe	500
Woods Seed Farm	1,500
Zemlo, Inc.	500
	<u>\$ 155,760</u>

NOTE 6. OTHER LONG-TERM LIABILITIES

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and for property loss, torts, and errors and omissions.

The Lenawee County Road Commission has its workers' compensation coverage with the Michigan County Road Association Self-Insurance Fund. The reserve for open claims involving the Lenawee County Road Commission, as of December 31, 2007, is \$6,845 which is handled by the Fund.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 6. OTHER LONG-TERM LIABILITIES (Continued)

Accumulated Sick Leave and Vacation Liability

Under union contract and Road Commission policy, individual employees have a vested right to receive payment for one-half of unused sick leave and all accumulated vacation pay up to specified limits upon termination of employment or retirement. The value of these vested rights, which is shown on the financial statements with the current portion shown in the Governmental Balance Sheet and the total liability is shown in the Statement of Net Assets. Total liability is approximately \$190,580 at December 31, 2007.

NOTE 7. BUDGET INFORMATION

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was adopted in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Road Commission's actual expenditures for the budgetary fund have been shown on a functional basis. The approved budget of the Road Commission for the General Fund was adopted to the functional level.

As of December 31, 2007, the Lenawee County Road Commission's total budgeted expenditures exceeded total actual expenditures.

The following activities had actual expenditures exceeding budget.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Local Road – Preservation-			
Structural improvements - LCRC	\$ 1,524,894	\$ 1,408,750	\$ 116,144
Asphalt plant operation	1,422,631	1,230,000	192,631

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 8. RETIREMENT PLANS

The Road Commission contributes to two retirement plans. Both are single employer plans; one is a defined benefit plan and the other is a defined contribution plan. Both are handled by the same insurance company.

Defined Benefit Plan

A. Plan Description

1. The Pension Plan for Employees of the Board of County Road Commissioners of the County of Lenawee is a single employer plan administered by the Board of County Road Commissioners - Lenawee County.
2. The plan was established by the Board of County Road Commissioners - Lenawee County and can be amended at its discretion, subject to the terms of the collective bargaining agreement. The plan provides retirement and death benefits to plan members and beneficiaries.
3. A financial report on this plan, including financial statements and required supplementary information, is available through the Lenawee County Road Commission.

B. Funding Policy

1. The Board of County Road Commissioners - Lenawee County, under its charter and through various collective bargaining agreements, has the authority to establish and amend the obligations of the Board of County Road Commissioners - Lenawee County and amend contributions made by plan members.
2. Active plan members are currently obligated to make contributions to the plan at the following rates:

\$6.00 a month from date of participation to annuity commencement date.

3. The Board of County Road Commissioners - Lenawee County contributes an amount on the basis of mutual agreement with the union.

Annual Pension Cost – For the year ended December 31, 2007, the Road Commission's annual pension cost of \$541,181 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006 using the entry age normal cost method. Significant actuarial assumptions used include (a) 7 percent investment rate of return, (b) projected salary increases of 3 percent per year, and (c) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 10 years.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 8. RETIREMENT PLANS (Continued)

Additional pension plan information is as follows:

	<u>Fiscal Years Ended December 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost (APC)	\$ 368,594	\$ 469,743	\$ 541,181
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-

Actuarial Valuation as of January 1, 2003 through 2006:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value Of Assets</u>	<u>Actuarial Accrual Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As % Of Covered Payroll</u>
1/1/03	\$ 2,227,351	\$ 3,843,515	\$1,616,164	58.0%	\$ 2,707,662	59.7%
1/1/04	2,294,349	4,464,809	2,170,460	51.3%	2,887,670	75.1%
1/1/05	2,901,301	4,229,566	1,328,265	68.6%	2,929,571	45.3%
1/1/06	3,808,612	5,399,254	1,590,642	70.5%	2,925,172	54.3%

Defined Contribution Plan

All full-time employees are eligible to participate in the plan after completing one-half year of service. Both the employee and employer are each required to contribute an amount equal to 1% of employee's compensation each month. Employee can also make nondeductible voluntary contributions not to exceed 25% of compensation. The Road Commission's contributions are vested as follows:

<u>Years of Service</u>	<u>Percentage of Vesting</u>
0 – 2 years	-0-
3 - 7 years	20% vesting each year

Total contributions to the plans in 2007 were \$219,265. The contributions from the Road Commission was \$28,206 and from its employees \$191,059. Covered payroll for 2007 was \$2,820,625.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Salaries and wages	\$ 616,837	\$ 596,908
Fringe benefits	684,689	495,434
Postage	3,526	2,870
Office supplies	13,877	12,190
Dues and subscriptions	13,165	11,313
Contractual services	13,737	13,675
Legal services	107,021	105,849
Auditing and accounting services	24,260	24,433
Computer maintenance and programming	88,580	121,916
Communications	25,078	12,621
Travel and mileage	8,816	8,712
Advertising	6,455	4,083
Building repair/Maintenance	32,196	
Office equipment repair/maintenance	8,202	9,077
Miscellaneous	8,380	18,402
Depreciation – buildings	42,427	42,427
Depreciation – engineering equipment	3,943	5,534
Depreciation – office equipment and furniture	22,508	20,522
Other:		
Engineering supplies	4,605	2,927
Rentals/equipment rental	46,601	42,341
	<u>\$ 1,774,803</u>	<u>\$ 1,551,234</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
SCHEDULE OF ACCOUNTS RECEIVABLE

December 31, 2007

TOWNSHIPS:

Adrian Township	\$ 845
Blissfield Township	113,503
Clinton Township	31,524
Deerfield Township	341
Dover Township	94,980
Fairfield Township	43,547
Ogden Township	133,197
Palmyra Township	1,608
Rome Township	1,302
Seneca Township	8,941
Tecumseh Township	17,099
Woodstock Township	<u>35,976</u>

Total	<u>\$ 482,863</u>
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OTHER RECEIVABLES:

Cities and Villages	\$ 2,041
Developers and others	<u>29,168</u>

31,209

Less: Allowance for doubtful accounts	<u>(5,000)</u>
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Total	<u>\$ 509,072</u>
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